

JAN. 7, 1998

MR. KENNARD.

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CORPORATION COMMISSION

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FEDERAL COMMUNICATIONS COMMISSION
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Bells clear one long-distance hurdle

By Steve Rosenbush
USA TODAY

NEW YORK — The U.S. District Court ruling striking down parts of the Telecommunications Act of 1996 could accelerate the Bells' entry into the long-distance market by one or two years.

As 1997 drew to a close, analysts had concluded that the Bells wouldn't begin to enter the long-distance market until late 1998 or beyond. The Federal Communications Commission (FCC) had rejected all three attempts by regional Bell carriers to offer long-distance phone service in their local service territories.

Now SBC Communications, which challenged the law, says it could begin offering limited long-distance service in a month or two.

Any change in the original timetable, which was the most complex and hard-fought issue in the law's passage, would have significant consequences for consumers, businesses and investors. The pace of mergers and acquisitions in the quickly consolidating industry also could be altered if the decision survives appeals, probably all the way to the Supreme Court.

"After the breakup of AT&T, this is the biggest court decision in telecommunications in a generation," says Rep. Edward Markey, D-Mass, who introduced the Telecommunications Act in 1993. This is how the ruling would affect the public:

► **Consumers.** SBC says it could begin offering long-distance service in Oklahoma in 30 to 60 days unless the courts stay the decision pending

appeal. It must first file a pricing plan, known as a tariff, with state regulators.

The ruling also would allow SBC to offer long-distance service in its remaining six states — California, Nevada, Texas, Arkansas, Kansas and Missouri. SBC says it will begin talks immediately with regulators in each of those states as a prelude to filing tariffs. No timetable for those tariffs has been set.

The ruling also allows US West to offer long-distance service in its local phone territory, because it is a participant in the case. The ruling does not directly affect the other Bells because they did not intervene. But the ruling will encourage them to file similar lawsuits.

FCC Chairman William Kennard, the long-distance carriers, consumer advocates and certain politicians say the ruling is bad for consumers.

"It will be a disaster for local telephone consumers. Local telephone rates will not go down, because the monopoly will still be in place," Markey warns.

SBC argues that its presence in the long-distance market will force AT&T, MCI, Sprint and others into local service, creating competition, spawning new choices, more services and lower prices. "This sends a signal that we are going to get into long-distance, and that the long-distance carriers better offer local service so (they) can offer one-stop shopping," SBC general counsel Jim Ellis says.

► **Investors.** The ruling is a victory for the regional Bells and a blow



By Tim Dillon, USA TODAY
Markey



USA TODAY
Kennard

to the long-distance carriers who must defend their turf. It's a particularly hard blow for AT&T, which still serves about two-thirds of the nation's residential long-distance consumers and has the most to lose.

The ruling deals a blow to telecommunications equipment makers, too. It would help the Bells negotiate lower prices, because they could order bigger quantities of equipment than ever. The ruling also would let the Bells make their own equipment in direct competition with companies such as Lucent Technologies and Northern Telecom.

The ruling threatens newspapers because it allows the Bells to compete in the classified advertising business, analyst Scott Cleland of Legg Mason Wood Walker's Precursor Group says.

The implications are mixed for the new local-phone companies that are building their own networks in competition with the Bells. It would be a blow to these new carriers. The Bells will become more formidable than ever once they can offer long-distance as well as local service. But it could spark a takeover battle for

the assets of the competitive local exchange carriers, driving up their stock prices, Cleland says. Potential buyers include the long-distance carriers looking for a quick entry into the local market.

The ruling also would remove the legal obstacle to a merger between a Bell and a long-distance company. Last spring, AT&T and SBC were in merger talks that fell apart because SBC is barred from long-distance service. Cleland says the ruling would raise political opposition to an AT&T-SBC deal, which is still under review by AT&T. It would force the Justice Department to rely on its only remaining weapon: antitrust law.

The ruling's effect on the stock market hinges on two pending decisions, says analyst William Deatherage of Bear Stearns.

► The impact will be reduced if the courts suspend the ruling during appeals, which could take two years. Deatherage says the odds of a "stay" are about 50-50.

SBC says the ruling will be entered into court records within a week. After that, members of the public will have 10 days to ask the district court to issue a stay. That decision can be appealed.

► The final decision of the appeals court or the Supreme Court will have ultimate influence on telecommunications stocks.

"The decision on the stay is critical, as are the appeals to the Fifth Circuit and the Supreme Court," Deatherage says. "They could take away all the freedoms SBC just won and bring us back to where we were before the decision was made."